ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN APRIL

Business activity continued mixed in April. Although the Federal Reserve index of industrial production as a whole declined further, scattered sectors of industry reported upswings in demand. Activity in raw materials picked up considerably largely on the basis of the troubled situation in the Far East, and steel production practically leveled off at 68 percent of capacity.

Retail sales this Easter were well maintained, almost up to last year's level. Sales of furniture and major appliances toward the end of the month were well above a year ago. Indicative of this continued good business have been firmer prices at the wholesale level.

Unemployment Declines

A favorable sign on the business scene in April was the first reported decline in unemployment since last October. The total number of people out of work and actively seeking employment during the week ended April 10 was estimated at 3.5 million, about 260,000 below the March figure. Seasonal pickups in farm, construction, and other outdoor activities, combined with the pre-Easter rise in demand for retail help, were considered to be the main factors accounting for the decline.

The employment picture also improved in April, with the number of people holding nonfarm jobs rising 500,000 to 60.6 million. Most of the increase appeared to be in farm, trade, and construction work, with little if any increase in employment in manufacturing industries.

Construction Activity Increases

Up seasonally from March, construction activity in April set a new record for the month at $2.8 billion. This was a little over 1 percent above the previous high for the month, established last April, and represented increased levels of activity in both public and private construction programs.

Expanded commercial building and public utility construction accounted for the main increase from last year in private construction outlays. Private home building was down slightly, though up 10 percent from the March level. The principal factor in the April rise in public construction outlays was a more-than-seasonal spurt in highway building.

New construction expenditures during the first four months of this year exceeded those in the corresponding 1953 months by 1.5 percent, with a 3 percent increase in private outlays more than offsetting a 2 percent decline in public spending.

Inventory Holdings Decline

Business inventories on a seasonally adjusted basis declined somewhat further in March to $80.0 billion by the end of the month. As in previous months, almost all of the decline was in durable goods, though at the manufacturers' level stocks were lower, on a seasonally adjusted basis, among both durable and nondurable goods producers.

Businessmen's sales on a seasonally adjusted basis rose slightly in March to $46.9 billion primarily as a result of higher sales at the manufacturers' level. Nevertheless, sales in March were considerably below the $50.1 billion of goods (seasonally adjusted) sold by all business concerns in March of last year. As a result, the inventory-sales ratio was down from a year ago — on the average, businessmen's stocks this March were sufficient for 1.7 months' sales at the March rate whereas stocks last March would have been sufficient for 1.6 months' sales at that time.

Manufacturers' Profits in 1953

Manufacturers as a whole made out better in 1953 than they did in 1952, though profits in the fourth quarter declined. Profits after taxes amounted to $11.3 billion last year, 6 percent more than in 1952. Sales in 1953 rose to a record of nearly $266 billion, and stockholders' rate of return on equity after taxes was estimated at 10.4 percent; in 1952, the rate of return was 10.2 percent.

Eighteen of the 23 major industry groups registered profit increases from 1952 to 1953. Iron and steel earnings rose the most, up 33 percent, but this was partly because of depressed earnings in the industry in 1952 as a result of the steel strike. Other industries reporting sharp gains in earnings were transportation equipment (other than automobiles) and tobacco. At the other end of the scale, lumber companies suffered the largest drop in earnings, 18 percent, and profits of manufacturers of machinery, other than electrical, were also down substantially, by 11 percent.

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Repeating 1929?

News reports indicate that the stock market has soared to a new quarter-century peak. Not since the panic days of late 1929 have prices been so high.

The question raised by this uptrend is whether the market may be again running to excesses that can only end in collapse. It is a question that consoles the bears and dampens the enthusiasm of the bulls. The facts, however, seem to warrant a negative answer. There are no signs of speculative fervor, hardly any carrying of stocks on credit by weak holders. Brokers' loans are actually smaller than they were a year ago. The market is dominated by strong investors who prefer stocks for the high yields they provide. Aside from the level of prices, nothing is comparable with the 1929 situation.

Yet, the doubt persists. The current move has run for eight months and has brought the Dow-Jones industrial price index up a full fourth from the low of last September. Why, and how long can it continue?

Why the Market Is Strong

There are a number of factors underlying the market advance. First is the changed appraisal of business prospects. Last summer, many expected the recession to be serious. Now the economy seems to be touching bottom, with activity still above everything but last year's peak. There may be some minor elements of overoptimism in the new look, but the basic elements of strength that have steadied the economy through the inventory reversal substantially justify this view. Earnings will be lower, but still at a prosperity level. Dividends are running more than 10 percent above last year.

Tax changes also provide a stimulus. On the personal side, tax cuts not only increase the portion of consumers' income free for spending, they provide an increment of investment funds. On the corporate side, they cushion the decline in earnings. Some of the fastest rising stocks in recent months have been those whose earnings are increased by exemption from the excess profits tax; increased dividends by some of these companies have firmed up profits expectations.

The proposal to cut taxes on dividend income may also have contributed something. It would represent a kind of risk-free windfall, or bonus, and make stocks more attractive in comparison with other investments. The chances of its passage, however, are widely discounted. Tax bills are usually rewritten in the Senate, and there is little to recommend measures that needlessly increase the Federal deficit when the government has to contend wtih rising unemployment.

Another favorable factor has been the reversal in interest rates. With the shift from a hard-money back to an easy-money policy and the decline in demand for business and installment loans, interest rates have fallen sharply since last summer, and a continuing surplus of investment funds seems to be in prospect. The steady decline in interest rates on high-grade bonds has tended to keep them well below dividend yields despite the rise in stock prices. To some extent that rise was merely capitalizing dividend yields at a lower interest rate.

Furthermore, investors have been given confidence by reassurances from Washington that action will be taken to counter any economic decline. To date, such action has been confined mainly to tax cutting; but other measures have been proposed, and some increases in appropriations, like that for road building, seem assured.

Finally, there is a belated tendency to correct an undervaluation of stock prices that has persisted in varying degree since the market break of 1946. The depression-mindedness that has dominated attitudes throughout the postwar period — and especially the attitude of professional traders and speculators — has seemingly become less acute. The swing in sentiment has progressed in recent months with the easing of fears of both inflation and deflation. The economy is no longer under pressure of demand in excess of capacity, but prices have held steady. It appears that the pace of activity is at least partly independent of the temporary stimulus of war programs. Hence, uncertainty no longer takes the same toll in discounted security values.

How Far Can the Market Go?

Two other closely related aspects of the current market may be noted: First, the market is not really high; and second, it is primarily an investors' market, with speculation almost completely ruled out.

The appearance of height in the market is created partly by the index of prices through which it is viewed. The most widely used indexes are heavily weighted with high-quality, investment-grade stocks, and this is particularly true of the Dow-Jones industrial index. These "blue chips" are the stocks that have been surging ahead. The mine run of stocks — mostly companies of less outstanding quality and in less favored industries — are also up somewhat from their 1953 lows, but they mostly remain well under earlier postwar highs.

This pattern of prices in the market has been determined largely by the fact that the public has not come back into the market. Most people have tied up their savings in other forms and left the market to the professional investors and speculators. This is in sharp contrast to the 1920's, when anyone with savings could get in. Then, for example, the home buyer typically held his house on a mortgage due after a fixed period of years, and his current savings could not only be put in the market, but could be greatly magnified by trading on low margins. Today, the home buyer pays off the mortgage month by month. Many of his other purchases are on the installment plan, and his life insurance policy also ties up income in this way.

Of those who still have a surplus of liquid funds, many are content to turn their investment problems over

(Continued on page 6)

GLASS AND GLASSWARE

The manufacture of glass was one of the earliest enterprises undertaken by America's settlers. The first glass factory in what was later to be the United States is believed to have been constructed in 1608. In spite of its early start, the industry was never really successful during the colonial period. The main reasons for this appear to be the lack of demand among the rugged frontierspeople and the lack of the skilled labor essential to the successful production of glass. The small quantities of glass demanded could be satisfied by imports of higher-quality, lower-priced English glass.

Despite frequent attempts to establish factories in Virginia, New York, Massachusetts, and Pennsylvania, it was not until imports from Europe were cut off by the Revolutionary War that glass was produced in large quantities in the United States. The wave of imports that followed the return of peace practically wiped out the young industry, however, and during the closing years of the century it was only with the granting of exclusive rights of manufacture, bounties, and tariffs on foreign goods that most glass factories were able to remain in operation.

Although the glass industry grew from 33 plants in 1820 to 317 plants in 1890, little of interest occurred either in the manufacturing process or in the products themselves. Although some phases had been improved and partially mechanized as early as 1890, there was little change in the basic process. During the last decade of the century technological change became more rapid and was maintained at a high tempo for the next twenty or thirty years. For instance, the Owens bottle machine, invented in the late 1890's, represented one of the most far-reaching improvements found in any craft. Invented by Michael J. Owens and first placed in commercial use in 1903, the machine almost completely mechanized the bottle-blowing process. By 1920, this operation had been perfected to such an extent that almost any kind of bottle could be made by machine both better and cheaper than in 1890.

The mechanization of the pressed and blown glass industry was less striking. This segment of glass manufacturing had been partially mechanized as early as 1890 but the introduction of machines was spread over a longer period of time.

Industry Moves to Illinois

The first glass factories were located in the more populous eastern states, but as the frontier pushed westward, the glass industry followed. It was during the Civil War period that the first glass factory was built in Illinois. The location of large supplies of coal in Illinois was an important factor in the growth of the industry. Glassmaking ingredients must be melted and maintained in this form for long periods before the batch is ready for working. Consequently, location near a supply of fuel is important. Other materials used in glassmaking which were available in Illinois in large quantities were limestone, oxide of lead, and glass sand, the basic ingredients of glass.

Under these conditions, the industry grew rapidly. Records show no glass factories in Illinois in 1860, two in 1870, and seven in 1880; in 1947 there were 11 establishments manufacturing glass and 86 factories making various products from glass purchased from other firms. During the interval from 1870 to 1947, the value of glass shipments grew from $146,000, about 1 percent of United States production, to more than $100 million, about 10 percent of the nation's total.

Of the 97 firms in the glass industry in Illinois in 1947, by far the largest number, 86, were engaged in the production of commodities such as mirrors, mosaic glass, glass watch crystals, safety glass, and glass novelties from purchased glass. Firms in this industry shipped products valued at over $31 million, more than any other state except Ohio.

Another important branch of the industry is made up of firms engaged in manufacturing glass containers. Although there are only seven Illinois firms in this group, the value of their products was over twice as large as that of the previous group. Over $70 million of goods was shipped by these firms in 1947, a volume exceeded only by that of Pennsylvania.

Only one firm is engaged in the manufacture of flat glass and three in the manufacture of pressed and blown glass. Most of the pressed and blown glass products made in Illinois are produced by firms working with purchased glass.

Competition Strong

The glass industry has in recent years felt the increasing pressure of competition of other materials such as paper, plastic, and metals. In spite of this pressure, business has grown steadily in the postwar years. Production of glass containers amounted to almost 17 billion units in 1953, nearly a billion units above the previous peak in 1951.

The latest figures for pressed and blown glassware and flat glass indicates that 1952 was considerably better than 1951. Radio and television tube sales, which amount to more than $100 million annually, were about 5 percent above 1951 and indications are that 1953 was even better.

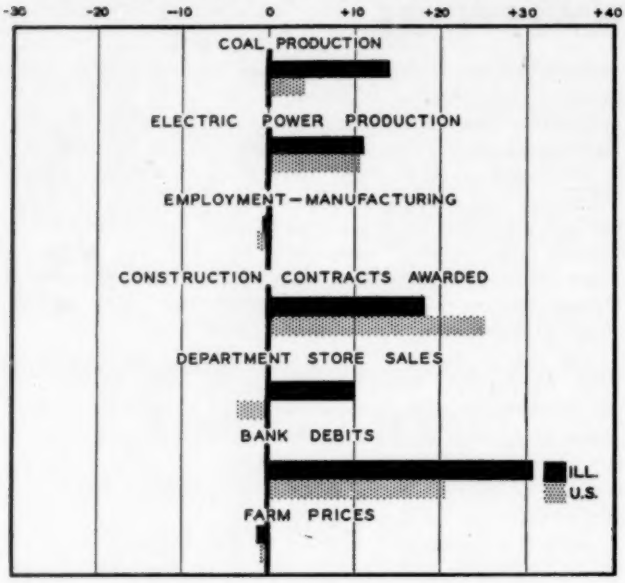
The important factors in the high levels of demand in the past few years have been the large amount of construction activity, the growth of the television industry, and the high levels of business activity in general. Another factor that has been important is the development of new products such as the throwaway bottle which has put the glass bottle back in competition in many fields which had been taken away by the metal can and the cardboard carton.

Fiber glass, another recent development, has had relatively small impact on the glass industry so far, but promises to be of considerable importance in the future.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1954, to March, 1954



ILLINOIS BUSINESS INDEXES

Item	March 1954 (1947-49 =100)	Percentage Change from Feb. 1954	Percentage Change from March 1953
Electric power[1]	178.5	+11.0	+10.7
Coal production[2]	74.3	+14.0	− 6.7
Employment — manufacturing[3]	103.8	− 0.8	− 8.2
Payrolls—manufacturing	n.a.	....	....
Dept. store sales in Chicago[4]	97.0[a]	−10.2	− 7.6
Consumer prices in Chicago[5]	116.7	0.0	+ 2.5
Construction contracts awarded[6]	195.1	+18.1	− 0.1
Bank debits[7]	171.7	+30.7	+ 5.1
Farm prices[8]	105.9	− 1.1	+ 2.3
Life insurance sales (ordinary)[9]	195.4	+26.0	+18.1
Petroleum production[10]	99.8	+11.2	+10.1

[1] Federal Power Commission; [2] Illinois Department of Mines; [3] Illinois Department of Labor; [4] Federal Reserve Bank, 7th District; [5] U. S. Bureau of Labor Statistics; [6] F. W. Dodge Corporation; [7] Federal Reserve Board; [8] Illinois Crop Reports; [9] Life Insurance Agency Management Association; [10] Illinois Geological Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	March 1954	Percentage Change from Feb. 1954	Percentage Change from March 1953
	Annual rate in billion $		
Personal income[1]	282.8[a]	− 0.1	− 0.3
Manufacturing[1]			
Sales	28.8[a]	+ 1.7	− 7.0
Inventories	45.7[a, b]	− 0.9	+ 2.0
New construction activity[1]			
Private residential	10.2	+11.5	− 1.0
Private nonresidential	15.5	+11.4	− 0.3
Total public	9.3	+13.8	− 3.1
Foreign trade[1]			
Merchandise exports	14.2[c]	+ 8.2	− 1.6
Merchandise imports	9.7[c]	− 3.0	− 5.5
Excess of exports	4.5[c]	+44.4	+ 8.2
Consumer credit outstanding[2]			
Total credit	27.2[b]	− 1.2	+ 4.6
Installment credit	20.9[b]	− 1.2	+ 7.8
Business loans[2]	22.8[b]	+ 1.7	− 2.2
Cash farm income[3]	24.0	+ 3.7	− 4.5
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	123[a]	− 0.8	− 8.9
Durable manufactures	135[a]	− 2.9	−12.9
Nondurable manufactures	113[a]	0.0	− 5.0
Minerals	112[a]	0.0	− 2.6
Manufacturing employment[4]			
Production workers	102[a]	− 1.1	− 9.3
Factory worker earnings[4]			
Average hours worked	99	− 0.5	− 4.1
Average hourly earnings	135	0.0	+ 2.3
Average weekly earnings	133	− 0.5	− 1.9
Construction contracts awarded[5]	200	+25.1	+13.4
Department store sales[2]	105[a]	− 3.7	− 8.7
Consumers' price index[4]	115	− 0.2	+ 1.1
Wholesale prices[4]			
All commodities	111	+ 0.1	+ 0.5
Farm products	99	+ 0.8	− 1.3
Foods	105	+ 0.5	+ 1.2
Other	114	− 0.1	+ 0.8
Farm prices[3]			
Received by farmers	95	− 0.8	− 3.0
Paid by farmers	114	+ 0.4	+ 0.4
Parity ratio	90[d]	− 1.1	− 4.3

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for February, 1954; comparisons relate to January, 1954, and February, 1953.
[d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1954					1953
		April 24	April 17	April 10	April 3	March 27	April 25
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,123	1,108	1,110	1,113	1,112	1,504
Electric power by utilities	mil. of kw-hr.	8,257	8,345	8,396	8,463	8,491	8,016
Motor vehicles (Wards)	number in thous.	147.2	139.6	141.5	138.6	139.2	182.6
Petroleum (daily avg.)	thous. bbl.	6,482	6,484	6,461	6,378	6,344	6,184
Steel	1947-49 =100	101.8	101.0	101.0	102.6	101.1	141.7
Freight carloadings	thous. of cars	626	613	607	599	601	780
Department store sales	1947-49 =100	102	118	113	103	100	104
Commodity prices, wholesale:							
All commodities	1947-49 =100	111.3	111.0	110.9	110.9	110.8	109.4
Other than farm products and foods	1947-49 =100	114.6	114.5	114.5	114.4	114.4	113.2
22 commodities	1947-49 =100	93.1	92.6	91.4	91.7	90.3	87.8
Finance:							
Business loans	mil. of dol.	22,348	22,558	22,714	22,763	22,821	23,156
Failures, industrial and commercial	number	229	198	246	267	277	159

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

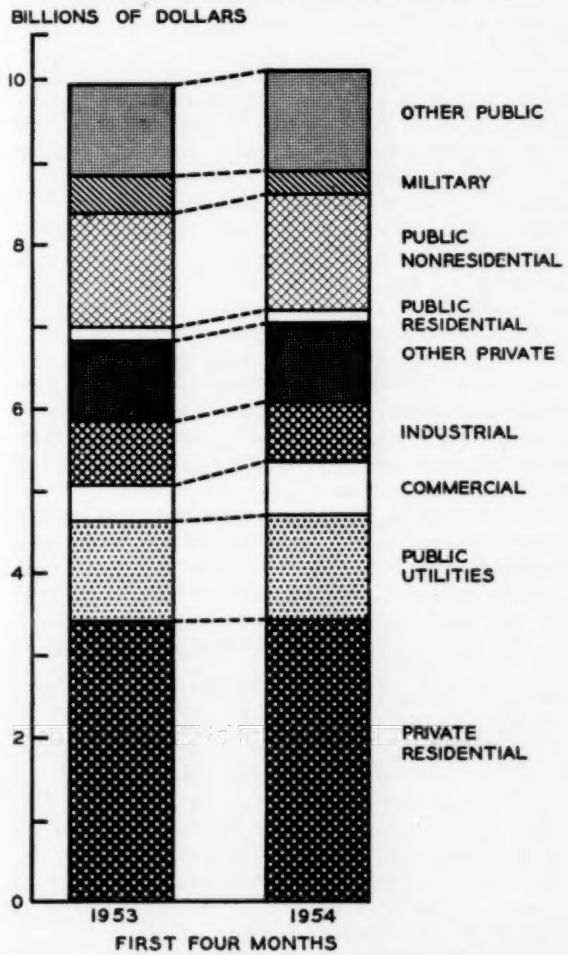
Construction Continues Strong

Construction activity continues to be a major stabilizer for the economy. During April, outlays rose 9 percent to $2.8 billion. The usual spring increase in homebuilding coupled with a greater-than-seasonal advance in highway construction accounted for most of the April rise. Although the increase in total outlays over April of last year was small, dollar volume was nevertheless at a record for the month.

Trends of various categories of total construction have been divergent and largely offsetting so far this year. As shown by the accompanying chart, private residential construction has been maintained at about the year-ago level. Expenditures for public utility structures and for commercial buildings, on the other hand, were up considerably this year and more than offset a 7 percent decline in expenditures for industrial construction. Outlays for commercial building failed to rise seasonally last month, but were up 40 percent between the first four months of 1953 and the same period of this year. Contract awards for this type of construction have been rising, however, indicating some increase in May.

In the public sector, increased expenditures for highways and educational building all but compensated for lower military and public housing outlays in the first four months of 1954.

CONSTRUCTION EXPENDITURES



Sources: U. S. Departments of Commerce and Labor.

Unemployment Drops

Unemployment declined in April by 260,000 workers. This was the first downward movement since last October. Despite the decline, unemployment was higher for the month than for any other postwar year except 1950.

During the month employment rose by a half million workers to 60.6 million. The increase, largely attributable to the seasonal pickup in outdoor work, was evenly shared by farm and nonfarm workers. Census data in thousands of workers are as follows:

	April 1954	*March 1954*	*April 1953*
Civilian labor force	64,063	63,825	62,810
Employment	60,598	60,100	61,228
Agricultural	6,098	5,875	6,070
Nonagricultural	54,500	54,225	55,158
Unemployment	3,465	3,725	1,582

Machine Tools Face Cutback

Machine tool builders are still doing a substantial volume of business each month, but their backlogs of unfilled orders are dwindling. The value of machine tool shipments totaled about $95 million in March, somewhat above shipments in January and February. New orders also picked up during March, but continued well below the current rate of shipments. As a result backlogs were down to 4.6 months' work at the March rate of production, compared with 5.1 months in February and 5.6 months in January.

The machine tool industry is one often characterized as feast or famine. Tool builders were in a feast phase after the outbreak of hostilities in Korea. Between the beginning of 1950 and the beginning of 1951 new orders more than quadrupled. Shipments also rose sharply after Korea but the industry could not expand nearly as rapidly as demand, so that unfilled orders rose from less than 4 months' work in January of 1950 to over 15 months in January of 1951. Backlogs continued to expand into 1951 even though new orders declined steadily after the first quarter; by September, 1951, unfilled orders were up to almost two years' work. Thereafter, however, backlogs declined. Even with production down 10 percent in the past 12 months, backlogs fell from 8.5 months in March of 1953 to 4.6 months this year.

Foreign Aid at Postwar Peak

United States net grants and credits to foreign nations totaled a postwar record of $6.4 billion in 1953. This was up more than a fourth from 1952. Military assistance increased by $1.7 billion, whereas economic and technical aid declined by $300 million. During the year transfers under the various foreign aid programs declined from an annual rate of $7.4 billion in the first half to $5.4 billion in the second. The high rate in the first half reflects disbursements of funds appropriated in earlier years that had not been utilized. Disbursements in the second half were about in line with the fiscal 1954 appropriation.

Assistance to Western Europe and its dependent areas was up almost 20 percent to $4.5 billion last year. All of the increase was in military aid; economic and technical aid was reduced from 1953 by almost a third to less than a billion dollars.

Net grants and credits to the Far East, which accounted for a fifth of total assistance, were up 45 percent from 1952. Military aid was almost doubled and economic aid, in contrast to other areas except the American republics, was also higher.

Corporate Working Capital Rises

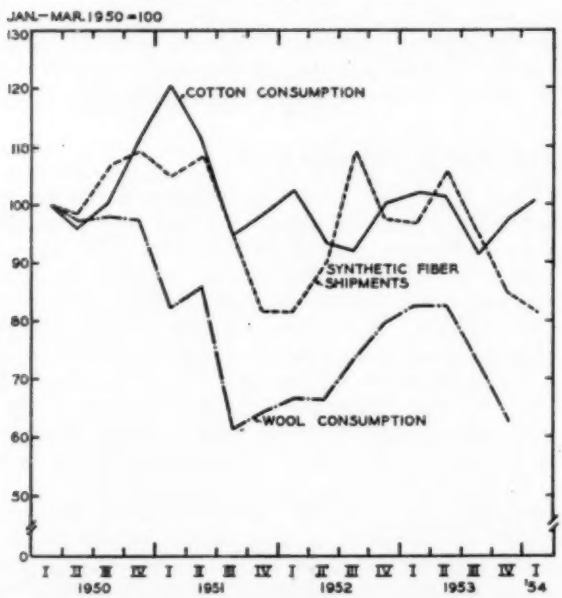
Net working capital of corporations increased in 1953, but at a much slower rate than in recent years. At the end of the year corporate net working capital amounted to $92.7 billion. This was $2.8 billion above the end of 1952, compared with advances of $3.9 billion, $4.4 billion, and $9.3 billion in the three preceding years.

Working capital reached a peak in the third quarter and declined slightly toward year-end, reflecting mainly liquidation of inventories and receivables. Despite the fourth quarter decline, corporate inventories at the end of the year were $1.6 billion higher than at the end of 1952 and accounted for about half of the increase in current assets during the year. Most of the remainder of the $3.3 billion increase in current assets was in holdings of United States government securities, reflecting accumulations for tax reserves. Corporations maintained their liquidity positions, as assets in the form of cash and government securities amounted to 54 percent of liabilities. This was substantially below the postwar peak of 71 percent in 1949, but still above prewar levels.

Textile Production Down

Conditions in the textile industry continued depressed during the early part of this year. Output of textile mills in the first two months of 1954 was down 13 percent from the same 1953 months, according to the Federal Reserve Board. Rayon and acetate synthetic fiber shipments in the first quarter were 15 percent below the same 1953 quarter. Wool consumption in the closing quarter of last year was almost a fourth below the first quarter, though the industry indicates that a moderate rise occurred in the first quarter of this year. Cotton fiber and fabric producers are faring somewhat better, but cotton consumption was still lower in the first quarter of this year than a year ago despite increases in the past two quarters.

TEXTILE CONSUMPTION



Source: U. S. Department of Commerce.

As shown by the accompanying chart, demand for the principal textiles has been predominantly downward for the past few years, reflecting a number of factors. Chief among these have been competition from abroad, shifts in fashions to lighter, less fiber using fabrics, and development of new synthetic fibers which have partly replaced demand for the older fibers. In addition, consumers have been devoting a declining share of their disposable income to apparel purchases in recent years.

Repeating 1929?

(Continued from page 2)

to the professionals by buying shares in investment trusts. These and other investment institutions have thus come to dominate the market. They typically operate on the principle, "Nothing but the best!" That is why the leading stocks have been so strong, leaving the rest of the market far behind.

These institutional investors operate with an eye to real values, but their views run strongly to fashions. Nowhere does "news" get around so quickly as in the financial community. Once a person accepts the dominant theme, he readily finds assurances that he is on the "right" track. And so he is — until the fashion changes. The favorite groups in the recent rise were the aircraft, electrical equipment, rubber, and paper industries. Logic is apparent here in the fact that volume is maintained while excess profits taxes are eliminated. But even the best logic may be carried too far when it becomes the fashion of the day.

When concentration on favorites creates undue disparities in relative prices, it creates opportunities in the neglected groups. Possibly the beginnings of a shift in market behavior may be observed in more recent strength in the building supply, office equipment, oil, and steel groups and in some secondary issues in all the favored groups. Here, renewed confidence in business prospects has apparently begun to take hold.

In time, it may even be found that prospects for some of the other depressed groups have been overdiscounted. Once the consumer goods industries have adjusted to the more competitive conditions recently experienced, it is likely that reasonable profits will be realized in those industries also. The peak in concentration on the "best quality" issues may not yet be passed, but the dynamic movers of the future may be found among issues now being ignored.

Even judging by the prices of the high-quality indexes, however, the market has far to go before the excesses of 1929 would again be approached. The economy has grown so greatly, the value of the dollar has depreciated so much, that the same prices today do not mean the same thing they did then. It is only a form of "money illusion" to say that stock prices are almost as high as at the earlier breaking point.

Nothing that has happened, or seems likely to happen in the next year or so, provides reason to think that the extremes of 1929 will be repeated. The market condition is sound enough so that only a definite prospect of further business declines could provide reason to turn it downward. Currently, the economy appears to be pulling out of the slump. Although the market will no doubt have temporary setbacks, the chances are that the general trend will continue upward through the year.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Tiny Capacitor

A tubular-shaped capacitor about as large as a kernel of corn has been developed by General Electric Company's capacitor department in Hudson Falls, New York. Designed as a companion to the transistor (a small electronic device that can be utilized in place of some types of vacuum tubes), the new product can be applied in many instances to miniature radios and tiny hearing aids as well as to other equipment employing transistors. It can be used in hearing aids to eliminate interference and to provide better tone by filtering the electric current. It is also expected to be employed by the armed forces for lightweight and small electronic equipment. Made chiefly of silver and tantalum metals, the micro-miniature device is believed by the company to be as important for the development of miniature items as was the transistor. The new capacitor measures 1/8 inch in diameter and 5/16 inch in length, approximately one-fourth the size of the smallest capacitor previously built by General Electric to do the same job.

Purchasing Efficiency

A quick, practical method of analyzing small business purchasing operations to identify profit leaks is presented in the Small Business Administration's Management Aid Number 45, *Judging Your Purchasing Efficiency* by Alfred W. Sutter. The discussion centers around the three major aspects of purchasing: the range of activities, i.e., the jobs, responsibilities, and skills involved; the teamwork quality of purchasing activities; and the "current health" of purchasing activities, i.e., how a particular operation measures up to what it should and could be.

A table to help the small business owner compare certain key purchasing factors is explained and illustrated and a chart showing how to evaluate major purchasing functions is also included. The pamphlet is available free from the Small Business Administration, Washington 25, D. C.

Re-usable Tin Cans

An aluminum lid that snaps on and off ordinary metal food cans (after the top of the can has been removed), converting them into food storage containers for refrigerators or freezers, is being marketed by Ellwood F. Whitchurch, Fayetteville, Arkansas. Called "Frostite," the new product is re-usable and permits easy stacking of cans. The lids will retail at 29 cents for a package of five in grocery and hardware stores.

New Metal-Working Process

A new metal-working process said to perform existing machining jobs more efficiently has been developed by lathe-making Lodge & Shipley Company, Cincinnati, Ohio. Called "Floturn," the new method squeezes and stretches cold steel under controlled pressure against a revolving metal part to make conical or cylindrical shapes such as artillery shells. The method can produce such shapes faster, easier, and at lower cost than any of the conventional ways of shaping cold metal parts.

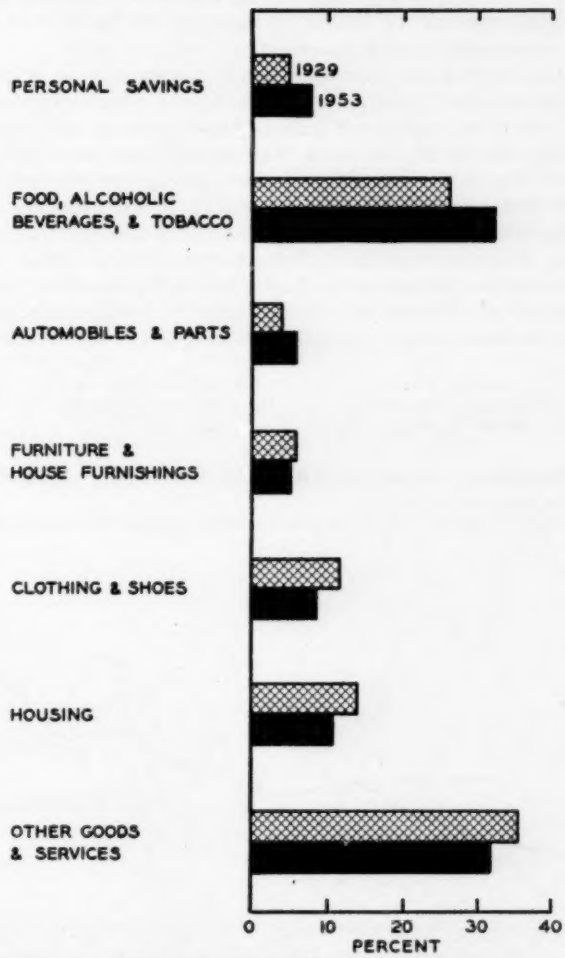
The new process is almost fully automatic, requiring no special skills of the operator. It has been widely tested and used in jet aircraft engine production. Machines for the Floturn method sell for about $38,000 but extra equipment brings the price of each model to approximately $55,000 according to the company.

Shifts in Consumer Expenditures

Pronounced changes have occurred in the consumption pattern of various goods and services during the past 25 years, according to the April *Survey of Current Business*. In 1953 consumers spent almost a third of their disposable personal income for food, alcoholic beverages, and tobacco — a considerably higher portion than was used for that purpose in 1929 (see chart). Also registering a notable increase was the percentage allotted to automobiles and parts purchases. The share of income spent for clothing and shoes declined in 1953 and the portion going for housing was also lower than in 1929.

Consumers spent 31.6 cents of each income dollar for services in 1953 and 61.1 cents for durable and nondurable goods; they saved 7.3 cents. In 1929 services took 38.4 cents, whereas durable and nondurable goods claimed 57.1 cents and savings amounted to only 4.5 cents.

CONSUMPTION EXPENDITURES AS PERCENT OF DISPOSABLE INCOME



Source: U. S. Department of Commerce.

INVESTMENT AND THE NEED FOR CAPACITY

DONALD C. STREEVER, JR., Research Assistant

Private investment is generally recognized as playing a major role in the business cycle. Historically, private investment in capital goods and inventories has accounted for less than 15 percent of total output. However, cumulative movements in income and employment are often initiated or accentuated by shifts of activity in this sector. In the absence of offsetting factors, increased employment and income generated by the capital goods industries are translated into consumption expenditures which in turn stimulate additional production, employment, and income, and ultimately still more investment. When investment declines, these forces operate in reverse and a downward movement in business activity results.

Investment Builds Capacity

This article summarizes the results of a study of the effects of changing levels of production and capacity on the volume of industrial investment expenditures, and appraises the near-term outlook for private investment in capital facilities within this analytical framework.[1]

A first step in the study was estimation of the annual volume of installed capacity. Systematic estimates of capacity do not exist for broad industry groups, and there is no basis for combining the various series on the few industries for which estimates are available. An over-all measure of industrial capacity therefore had to be constructed.

Underlying the estimates made of capacity is an assumption that changes in capacity are proportional to net plant and equipment expenditures, that is, to annual changes in the capital stock. Net expenditures were determined by deducting depreciation charges expressed in 1939 dollars from gross expenditures in 1939 dollars. A difficult statistical problem arises in obtaining suitable price indexes to deflate these series. The deflation of depreciation charges in particular has many complications, some of which may be resolved only by rough estimates. The deflator constructed takes account of the average age of facilities being depreciated and is based on capital goods prices prevailing in the year the facilities being depreciated were purchased.

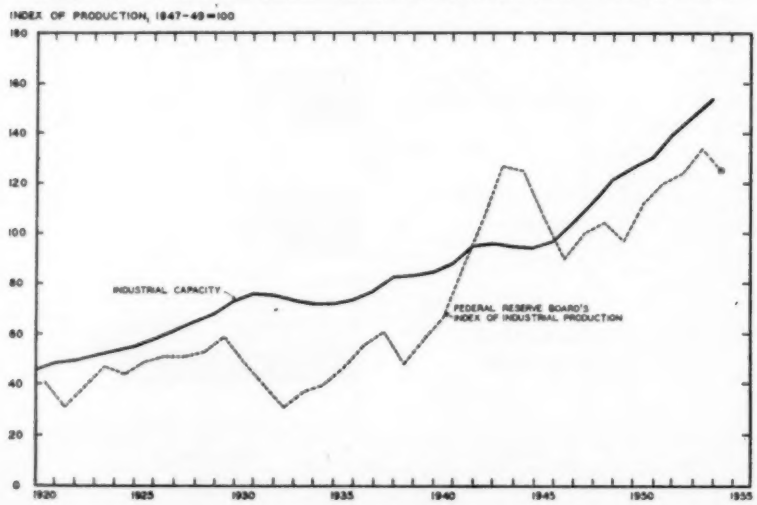
The annual net expenditures data were translated into index terms by dividing net expenditures by a constant; the resulting capacity changes were accumulated. The constant controls the steepness of the capacity index. Although determination of the constant was somewhat arbitrary, the principal consideration was that the percent of industrial capacity operated in the two postwar periods was roughly the same. This is consistent with data available for specific manufacturing industries, such as the steel industry; it is also consistent with other studies of capacity made in the interwar period, such as the Brookings Institution's study, *America's Capacity to Produce.*

Chart 1 compares the index of capacity in existence at the beginning of each year with the Federal Reserve Board's index of industrial production. In expansionary periods, such as the twenties and post-World War II years, capacity tends to parallel the trend in production. When production is reduced, capacity levels off. In extremely depressed periods, such as the early thirties, capacity may actually decline. An annual decline much greater than 2 or 3 percent, however, is unlikely, since even in the most depressed periods production and capacity of industries producing basic necessities are maintained, and expansion of capacity in new industries continues. These elements of stability offset postponed replacement expenditures and curtailed expansionary expenditures by more seriously depressed industries, and serve to sustain aggregate capacity.

During World War II production exceeded private capacity, reflecting omission of government-built capacity from the estimates and prevalence of multiple-shift operations in many plants which in peacetime normally operate one shift. Capacity of private firms declined during the war, because restrictions on building materials and metals held new capital outlays to a low level while depreciation continued to take its toll of existing capacity.

[1] The author wishes to express his appreciation for the helpful advice and suggestions made by Professor V Lewis Bassie, under whose direction this study was carried out.

CHART 1. INDUSTRIAL PRODUCTION AND CAPACITY



Investment Related to Output and Capacity

Under peacetime conditions, investment expenditures are closely related to the level of industrial production and the amount of capacity in existence. One measure of this relationship is shown in Chart 2. The upper panel of the chart indicates that investment outlays and industrial production tend to rise together. However, at the higher levels of production the observations deviate substantially from the line of average relationship. This is explained by the existence of a greater amount of capacity in later years. As shown by the lower panel of the chart, deviations are almost entirely accounted for by correlating them with capacity in existence each year.[2]

[2] The computed relationship is as follows:

$$I = 760 + 73.3\,P - 28.8\,C.$$

I represents industrial investment expenditures in millions of 1939 dollars.

P represents the production level relevant to a determination of percent of capacity operated. This

The negative slope of the line in the lower panel shows that the tendency for expenditures to respond fully to changing levels of production is dampened by the volume of installed capacity. If industrial production rises, the increase in investment will be considerably less when a substantial volume of previously unutilized capacity can be put to use than when capacity is low relative to production and many firms require additional facilities to meet increased demand. Thus the greater the amount of existing capacity, the smaller will be the investment outlays needed at any given level of production.

As shown by Chart 3, the relationship approximates actual investment with a high degree of accuracy. Excluding the war years, the discrepancy between actual and calculated expenditures averaged about 7 percent, and in most peacetime years was substantially smaller than a half billion dollars. The relationship was drastically disturbed during the war when the government controlled expansion programs and industrial plants operated multiple shifts. Actual expenditures also exceeded calculated expenditures substantially in 1946 and 1947, as the backlog of demand for private capacity built up during the war was superimposed on the "normal" amount of expenditures induced by high production and inadequate capacity. Thereafter the relationship approximates the postwar pattern. The inverse movement in 1952 is mainly a reflection of the steel strike of that year, indicating that investment schedules are not adjusted materially to production cuts resulting from work stoppages in contrast to fluctuations in demand.

The Outlook for Capital Expenditures

During 1953 capacity increased about 5 percent. With production down in the past six months, much existing capacity is not being utilized. As a result, industrial investment expenditures in 1954 are expected to be about 7 percent below the 1953 level. This is based on an estimated FRB index of 124, or an average for the year about the same as the first quarter level. Production in April was somewhat lower, but the situation seems to have stabilized and a very moderate recovery would bring the year as a whole to the first quarter level.

Although investment programs are adjusted fairly rapidly to changing levels of production, actual expenditures lag production movements by the time needed for the construction of plants and installation of equipment. Investment expenditures planned before production declined last year have had some stabilizing influence early this year. Preliminary estimates by the Department of Commerce indicate first quarter outlays were off about 4 percent from 1953, but the full impact of the past six months' decline in production on investment expenditures will not be felt until the second and third quarters.

Lower expenditures this year will slow the rate of growth in capacity, but capacity will nevertheless increase throughout the year. This means a moderate recovery in output will produce no increase in investment outlays in 1955. If production recovers most of the decline by year-end, outlays in 1955 may be higher than this year. With such a rise in production, expenditures would be a buoyant element next year but will still not measure up to 1953's level.

CHART 2. RELATION OF INDUSTRIAL INVESTMENT EXPENDITURES TO PRODUCTION AND CAPACITY

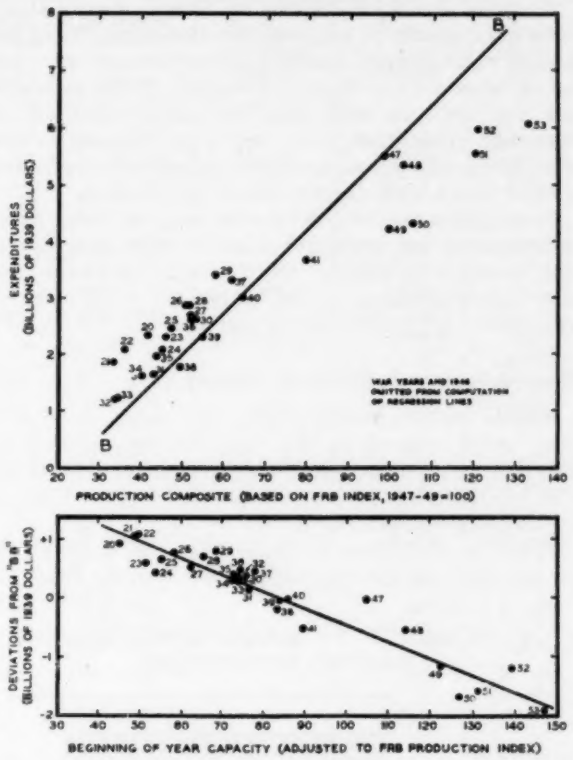
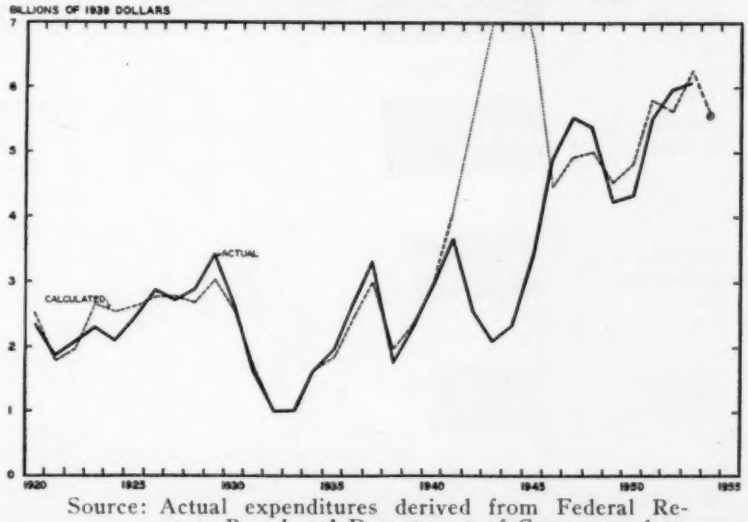

EXPENDITURES (BILLIONS OF 1939 DOLLARS)
WAR YEARS AND 1946 OMITTED FROM COMPUTATION OF REGRESSION LINES
PRODUCTION COMPOSITE (BASED ON FRB INDEX, 1947-49=100)
DEVIATIONS FROM "B-B" (BILLIONS OF 1939 DOLLARS)
BEGINNING OF YEAR CAPACITY (ADJUSTED TO FRB PRODUCTION INDEX)

CHART 3. ACTUAL AND CALCULATED INDUSTRIAL INVESTMENT EXPENDITURES



Source: Actual expenditures derived from Federal Reserve Board and Department of Commerce data.

production variable is a seven-quarter weighted average of the FRB index which includes three quarters of the previous year and the four quarters of the current year, all of which are assumed to make some contribution to the current year's investment. It is designed to account for the lag that necessarily exists between the time investment decisions are made and the capital facilities ordered can be made ready for operation.

C represents the index of capacity in existence at the beginning of the year. This may be regarded as an average of capacity for the seven-quarter period covered in the production composite, since changes in capacity are relatively smooth even when production is changing rapidly.

LOCAL ILLINOIS DEVELOPMENTS

Business activity picked up in Illinois during March, partly as a result of seasonal developments. Coal production, construction contracts awarded, and steel production were higher than in February. Other indicators were not only up seasonally but also registered improvement over March of last year. These included bank debits, life insurance sales, petroleum production, business loans, and electric power production.

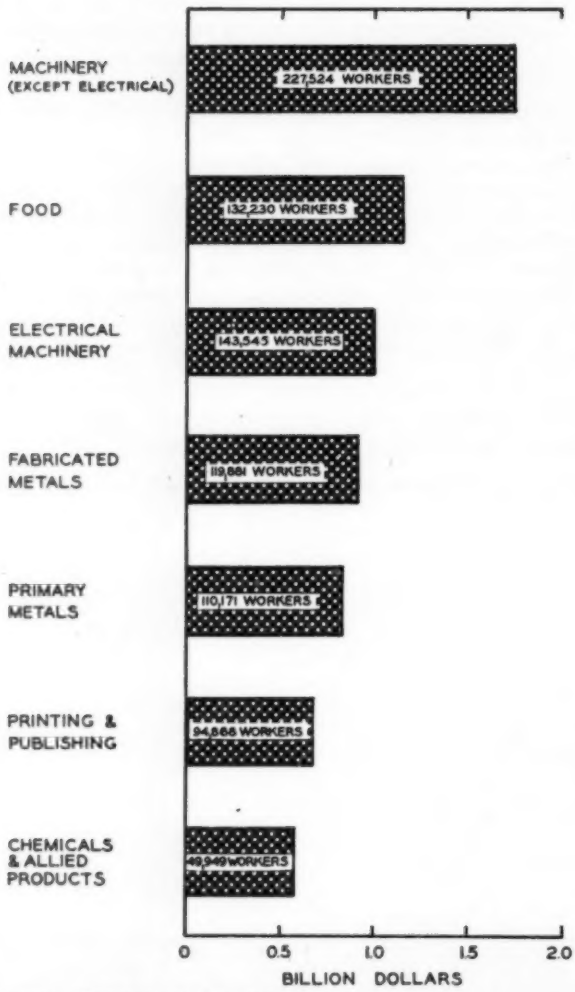
Farm prices received in March were off from February but registered small gains over a year ago. For the third consecutive month, the Chicago consumer price index was unchanged at 116.7 (1947-49 = 100); at this level, it was 2.5 percent above last March.

Manufacturing Activity in Illinois

Illinois ranked fourth among the states in terms of dollar value created in the manufacturing process in 1952. The total value added to products in Illinois rose to $9.3 billion, up 5.4 percent from the preceding year and almost 40 percent from 1947.

With the exception of the leather and leather products industry, all groups reported an increase from 1947 to 1952 in the value added by manufacture (derived by subtracting the cost of materials, supplies, and so on from the total value of products shipped). Increases of 60 percent or more in the value added to products manufactured in the State were achieved from 1947 to 1952 in two industries — instruments and related products, and machinery (except electrical). The latter retained its position as the leading single industry in the State, whether measured by the total number of employees or by the value added to products (see chart). Other manufacturing industries in order of importance in Illinois include food and kindred products, electrical machinery, fabricated metal products, the primary metal industries, the printing and publishing industries, and chemicals and allied products. These seven groups together accounted for about three-fourths of all manufacturing activity in the State in 1952.

VALUE ADDED BY MANUFACTURING, 1952
LEADING INDUSTRIES



Source: Bureau of the Census.

Civilian Government Employees

A total of 346,770 persons, or almost 4 percent of the population, were employed as public workers in Illinois during 1953. About two-thirds were state and local workers and the remainder were Federal government civilian employees.

Total civilian government workers in the nation as a whole, approximately 7 million persons in 1953, earned $23.3 billion. The largest share of the total ($10.2 billion) was paid by local governments, but the Federal payroll amounted to $9.8 billion, and employees of state governments received $3.3 billion.

Quarterly Construction Totals

Construction contracts awarded during the first quarter of 1954 in Illinois reached $266.0 million, or 26 percent more than the same period a year ago. The gain was double the average reported by F. W. Dodge Corporation for the 37 states east of the Rocky Mountains. Substantial increases in the valuation of contracts for both residential and nonresidential building were responsible for the boost.

March awards in Illinois rose 18 percent from February, to $103.6 million, largely as the result of seasonal trends. However, total contracts awarded were slightly lower than in March, 1953, because of a decline in awards for public works and utilities.

Prospective Plantings

Illinois farmers have indicated that they are planning to devote the same total acreage to crops in 1954 as they did last year. But shifts in the distribution of acreage are expected to be greater than usual this year, owing primarily to the government's allotment program which calls for sharp reductions of corn and wheat in the State. To utilize the restricted land, farmers intend to more than double acreage planted in barley and rye and they also indicate a fairly substantial increase for hay and other small grains.

On April 1, the prospective wheat crop was 40 million bushels, which is much smaller than last year's crop of 57 million but substantially larger than the 10-year average (30 million bushels). The present acreage suffered little or no winter damage and is starting out this spring with generally better than average stands.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1954

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$21,182[a]	967,762[a]	$480,548[a]		$15,012[a]	$14,908[a]
Percentage Change from	Feb., 1954	−19.6	+1.0	−6.0	+10	+30.7	+13.8
	Mar., 1953	−1.9	−2.3	−5.6	−9	+5.1	+11.2
NORTHERN ILLINOIS							
Chicago		$14,872	756,254	$358,201		$13,854	$12,996
Percentage Change from	Feb., 1954	+25.4	+1.2	−6.8	+10	+31.9	+14.9
	Mar., 1953	+1.1	−3.2	−4.5	−9	+5.2	+11.7
Aurora		$ 294	n.a.	$ 6,671		$ 50	$ 120
Percentage Change from	Feb., 1954	+52.3		−1.3	+20	+21.0	+22.3
	Mar., 1953	−38.0		−4.1	−19	+1.6	+20.6
Elgin		$ 314	n.a.	$ 4,693		$ 31	$ 100
Percentage Change from	Feb., 1954	+72.5		+1.0	+19	+19.8	+21.5
	Mar., 1953	−19.7		−4.7	−6	+11.0	+3.2
Joliet		$ 452	n.a.	$10,184		$ 60	$ 102
Percentage Change from	Feb., 1954	+48.7		−17.6	+13	+12.2	+41.8
	Mar., 1953	+17.4		−4.5	−22	−3.0	+35.9
Kankakee		$ 266	n.a.	$ 4,685		n.a.	$ 35
Percentage Change from	Feb., 1954	+23.1		+1.2	n.a.		+4.9
	Mar., 1953	+144.0		−8.8			+9.1
Rock Island-Moline		$ 662	20,002	$ 8,055		$ 80[b]	$ 161
Percentage Change from	Feb., 1954	−25.1	+1.7	−6.6	n.a.	+13.4	+5.4
	Mar., 1953	+48.4	+2.1	−18.3		−4.0	+8.0
Rockford		$ 857	30,590	$14,209		$ 151	$ 252
Percentage Change from	Feb., 1954	+74.5	−4.2	−4.0	+22[c]	+22.2	+24.1
	Mar., 1953	+24.6	−6.2	−9.6	−18[c]	+0.6	+15.5
CENTRAL ILLINOIS							
Bloomington		$ 844	6,780	$ 4,675		$ 66	$ 111
Percentage Change from	Feb., 1954	−15.3	−4.9	−1.3	n.a.	+25.8	+13.8
	Mar., 1953	+520.6	+3.6	−7.0		+9.5	−20.9
Champaign-Urbana		$ 179	8,418	$ 6,334		$ 54	$ 98
Percentage Change from	Feb., 1954	+214.0	−7.2	−1.4	n.a.	+6.2	+8.8
	Mar., 1953	+80.8	+0.7	−10.9		+4.4	+4.9
Danville		$ 150	8,894	$ 5,101		$ 46	$ 64
Percentage Change from	Feb., 1954	+10.3	−5.9	−1.5	+14	+19.6	+21.4
	Mar., 1953	+87.5	+8.8	−2.7	−20	+14.1	+15.5
Decatur		$ 330	22,630	$ 8,814		$ 98	$ 124
Percentage Change from	Feb., 1954	−40.6	+1.4	+1.3	+17[c]	+18.1	+16.5
	Mar., 1953	−11.3	+4.4	+0.3	−8[c]	+5.4	+15.1
Galesburg		$ 164	6,928	$ 3,608		n.a.	$ 37
Percentage Change from	Feb., 1954	+33.3	+2.9	+0.1	n.a.		+26.4
	Mar., 1953	+35.5	+8.9	−3.6			+12.8
Peoria		$ 679	43,628[c]	$14,083		$ 195	$ 236
Percentage Change from	Feb., 1954	+64.8	+2.7	−5.9	+8[c]	+13.5	+12.4
	Mar., 1953	−70.3	−3.0	−13.6	−17[c]	−1.4	+5.7
Quincy		$ 258	7,033	$ 3,968		$ 38	$ 76
Percentage Change from	Feb., 1954	−40.6	−7.5	−4.9	+14	+13.9	+1.8
	Mar., 1953	+273.9	+2.9	−10.1	−8	+8.2	+8.2
Springfield		$ 288	27,092[c]	$11,269		$ 105	$ 249
Percentage Change from	Feb., 1954	−96.9	+4.6	+1.3	n.a.	+20.9	+12.4
	Mar., 1953	−59.8	+6.0	−7.7		+7.1	+1.4
SOUTHERN ILLINOIS							
East St. Louis		$ 418	11,988	$ 7,863		$ 144	$ 69
Percentage Change from	Feb., 1954	+46.2	−1.2	−2.2	n.a.	+23.8	+24.2
	Mar., 1953	+1.2	−3.0	−14.9		+4.1	+6.2
Alton		n.a.	11,640	$ 4,327		$ 41	$ 36
Percentage Change from	Feb., 1954		+4.9	−0.0	n.a.	+26.2	+14.9
	Mar., 1953		+3.2	−5.9		+19.1	+13.8
Belleville		$ 155	5,885	$ 3,806		n.a.	$ 42
Percentage Change from	Feb., 1954	+307.9	+0.0	+0.1	n.a.		+6.7
	Mar., 1953	+68.5	+12.4	−2.4			+7.2

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for February, 1954, the most recent available. Comparisons relate to January, 1954, and February, 1953. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

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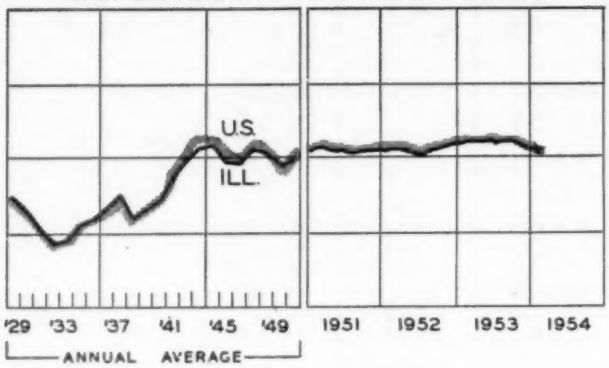
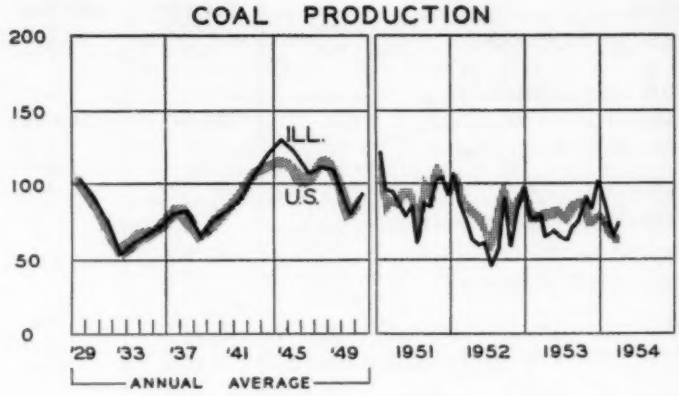
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

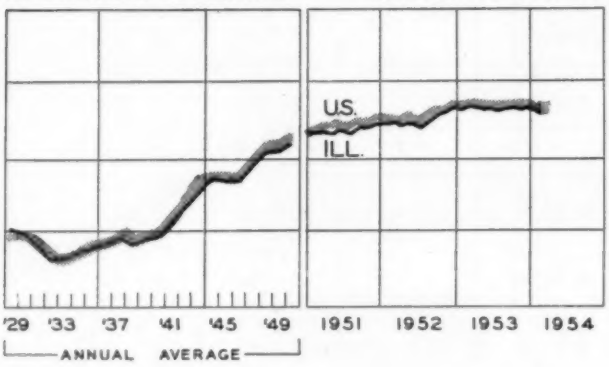
EMPLOYMENT - MANUFACTURING



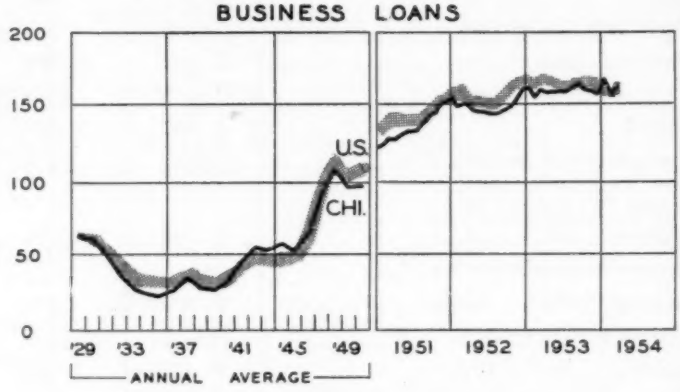
COAL PRODUCTION



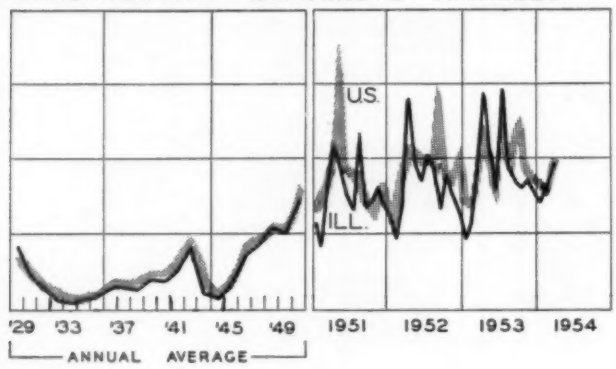
AVG. WKLY. EARNINGS — MANUFACTURING



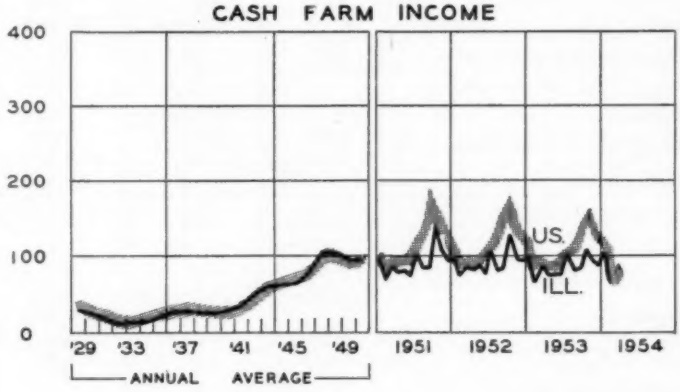
BUSINESS LOANS



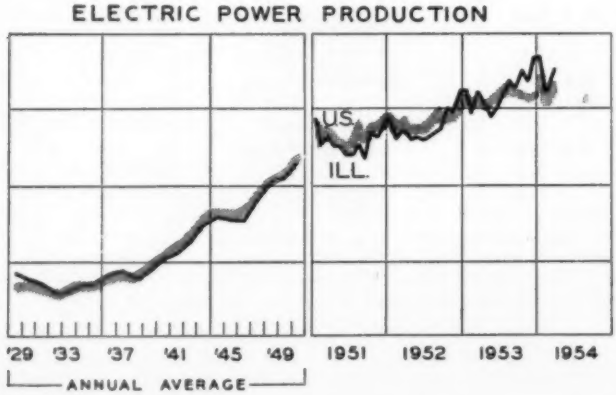
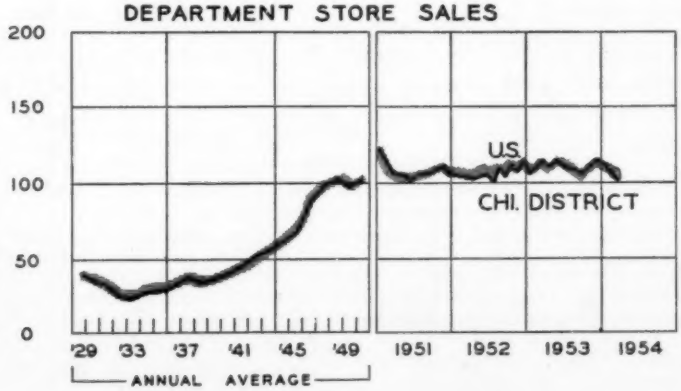
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES